

Report
of the
Examination of
CUNA Mutual Insurance Society
Madison, Wisconsin
As of December 31, 2000

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Commissioners:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

CUNA MUTUAL INSURANCE SOCIETY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the CUNA Mutual Insurance Society ("CUNA Mutual," or the "company") was conducted in 1997 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuary was engaged to assist in the review of company loss reserves, under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of the actuary's review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's findings.

II. HISTORY AND PLAN OF OPERATION

CUNA Mutual Insurance Society is a Wisconsin domiciled mutual life and health insurer. The company was initially organized in 1935 under the applicable laws of Wisconsin, and was established by credit union interests for the purpose of providing for the insurance needs of credit unions, credit union organizations, and credit union members. Ownership and control of the company is vested in the company's policyholders, which are comprised primarily of credit union institutions and individual members of credit unions.

CUNA Mutual and its affiliates provide group and individual life insurance, accident and health insurance, property and casualty insurance, and other financial products and services to the credit union industry. CUNA Mutual's business activities are conducted in all states, the District of Columbia, and internationally. The company maintains special deposits in various countries to receive premiums and to pay claims.

Effective July 1, 1990, the company entered into an agreement of permanent affiliation with CUNA Mutual Life Insurance Company (CMLIC), an Iowa domiciled life insurer formerly known as Century Life of America. Pursuant to the affiliation agreement, CUNA Mutual and CMLIC have common management and maintain integrated business functions and operations. CMLIC serves as the primary direct writer of individual life insurance and individual annuities that are marketed to credit union members through CUNA Mutual's policyholder credit unions.

Pursuant to the affiliation agreement the two companies transact affiliated profit sharing on their respective direct business. CUNA Mutual cedes to CMLIC 50% of its individual and group life and AD&D business written on a direct mail basis to credit union members. CMLIC cedes to MEMBERS Life Insurance Company 50% of its non-variable individual life and annuity business written through its agency force.

CUNA Mutual is the parent company for an extensive holding company system that includes life and health insurers, property and casualty insurers, and non-insurance operating companies. The subsidiary companies engage in diverse insurance, financial, and management product and services businesses serving various credit union industry market segments. Further

discussion of the CUNA Mutual holding company and of the company's affiliation with CMLIC is included in the sections of this report captioned "Affiliated Companies" and "Reinsurance."

The company maintains insurance authorization in all 50 states and Washington D.C, in American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands, and in Canada and other foreign countries. Most of the company's insurance business is written in the United States, with no individual state accounting for more than 7% of the direct premium written. In 2000, the company wrote direct premiums in the following jurisdictions:

Pennsylvania	\$64,147,799	6.7%
Texas	56,111,185	5.8%
New York	55,776,007	5.8%
California	46,447,246	4.8%
Illinois	46,395,342	4.8%
Michigan	46,326,604	4.8%
Virginia	40,926,198	4.3%
Florida	37,213,788	3.9%
N. Carolina	32,942,835	3.4%
Tennessee	27,948,313	2.9%
Wisconsin	27,524,466	2.9%
Ohio	27,301,311	2.8%
South Carolina	27,167,669	2.8%
All others	<u>424,761,036</u>	<u>44.2%</u>
	<u>\$960,989,799</u>	<u>100.0%</u>

The "all others" category amount shown above includes approximately \$18.3 million of premium related to direct business written in U.S territories and foreign countries.

The major products marketed by the company include credit life, credit disability, group term life, pension products, individual life, and accidental death and dismemberment. Credit life and credit disability insurance coverages are purchased by individual credit union members to cover outstanding loan balances, or by credit union institutions as a free benefit provided to members. Group term life, individual term life, and accidental death and dismemberment are purchased by individual credit union members. CUNA Mutual markets group life and group health coverages to credit unions for employee benefit programs.

Effective March 1, 1999, the company ceased direct issuance of group health benefit plans, including dental and vision coverages. Existing health benefit plans were terminated effective August 31, 1999. The company continues to write group disability income insurance, group credit disability insurance, and other types of accident and health insurance except for group health benefit plans.

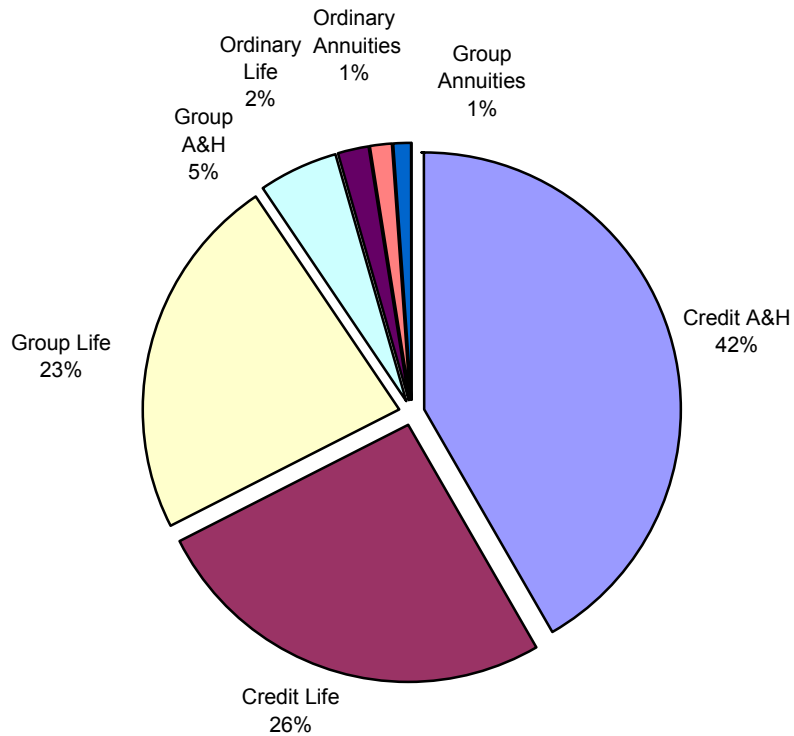
The CUNA Mutual business strategy is to operate as an insurance production company and as a services distribution company, for both business-to-business and business-to-individual members market segments. Business-to-business markets are served by a field force team that is structured as six regional marketing offices. The company's business marketing organization is divided into three groups, and each credit union client is assigned to one of the three marketing groups based on the annual revenue volume of the credit union. Credit unions that have annual business volume in excess of \$70 million are served by a field force team that includes individual product specialists. A credit union with annual business volume between \$10 million and \$70 million is served by a single account manager. Credit unions having less than \$10 million annual business volume are served by the general marketing staff of the home office and the applicable regional marketing office.

CUNA Mutual's marketing to individual members of credit unions is conducted by the company's home office marketing staff with the permission of the respective credit unions. The company distributes marketing materials to credit union members for individual health insurance, life insurance, annuity products, and financial products by direct mail, and conducts on-site marketing at credit unions by salaried CUNA Mutual general agents.

The following chart is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Credit A&H	\$385,410,786	\$ 547,615	\$ 14,400	\$385,944,001
Credit Life	237,899,923	1,073,089	135,012	238,838,001
Group Life	202,608,369	70,636,620	60,388,559	212,856,430
Group A&H	88,855,861	73,814	41,220,505	47,709,170
Ordinary Life	27,499,756	(179,562)	10,149,334	17,170,860
Ordinary Annuities	13,626,086	0	0	13,626,086
Group Annuities	9,246,770	0	0	9,246,770
Other A&H	121,985	0	32,084	89,901
Total All Lines	<u>\$965,269,536</u>	<u>\$72,151,576</u>	<u>\$111,939,894</u>	<u>\$925,481,219</u>

CUNA Mutual NPW 2000



III. MANAGEMENT AND CONTROL

Board of Directors

The company's board of directors consists of fourteen members. Effective May 2001, the board approved a restructure of the directors' classes and terms of office, in accordance with restated by-laws of the company. Prior to the restructure, the directors were organized into three classes, each class serving a term of six-year duration. Upon the 2001 restructure, each director was newly appointed to one of two classes of directors, each class serving a term that is four-years in duration. One class of directors is elected by company policyholders at each biennial general election of directors.

Each member of the CUNA Mutual board of directors also serves as a director on the boards of MEMBERS Life Insurance Company, CUMIS Insurance Society, Inc. (CUMIS), and CUNA Mutual Life Insurance Company, and the boards of directors of the four insurers have common membership. Each director currently receives a minimum annual base fee of \$46,000 as compensation for serving on the CUNA Mutual group boards of directors. Cash payments for directors' fees and expenses are disbursed by CUNA Mutual, and a portion of the total directors' expense is allocated to various companies in the CUNA Mutual group through affiliated services agreements.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert W. Bream Palantine, IL.	President/CEO United Airlines Employees Credit Union	2002
James L. Bryan Dallas, TX.	President, Texans Credit Union	2002
Loretta M. Burd Columbus, IN.	CEO, Centra Credit Union	2002
Rudolf J. Hanley Orange, CA.	CEO, Orange County Teachers Federal Credit Union	2002
Omer K. Reed Scottsdale, AZ.	President, Pentegra, Ltd.	2002

Farouk Da Goun Wang Mililani, Hawaii	Director, Buildings and Grounds Management, University of Hawaii	2002
Larry T. Wilson Raleigh, NC.	President/CEO, Coastal Federal Credit Union	2002
James C. Barbre Acworth, Ga.	Chairman, Georgia Corp. Central Credit Union	2004
Ralph B. Canterbury Ormand Beach, FL	Retired CEO Orange County Teachers Federal Credit Union	2004
Jerald R. Hinrichs New Canaan, CN.	President, Hinricks & Associates	2004
Michael B. Kitchen Madison, WI.	President/CEO, CUNA Mutual Group	2004
Brian L. McDonnell Oak Hills, VA.	CEO, Navy Federal Credit Union	2004
Clark A. Peppers Aurora, CO.	CEO, Denver Public Schools Credit Union	2004
Neil A. Springer Wheaton, IL.	Managing Director, Springer Souder & Associates, L.L.C.	2004

Officers of the Company

The officers of CUNA Mutual are appointed by the board of directors at the directors' annual meeting. Each officer of CUNA Mutual also holds the corresponding office in MLIC, CUMIS, and CMLIC, and the four insurers have a shared corps of senior executive officers. The officers serving at the time of this examination are as follows:

Name	Office	2000 Compensation *
James L. Bryan	Chairman	\$33,071
Michael B. Kitchen	President, Chief Executive Officer	706,532
Faye A. Patzner	Secretary and Senior Vice President	63,256
Jeffrey D. Holley	Treasurer and Senior Vice President	304,615
Irene R. Steinl	Actuary	58,548

* Includes total compensation paid for all four insurers.

Committees of the Board

The company's by-laws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Neil A. Springer, Chair
James L. Bryan, Sr.
Loretta M. Burd
Michael B. Kitchen
Bryan L. McDonnell
Larry T. Wilson

Audit Committee

Jerald R. Hinrichs, Chair
James C. Barbre
Robert W. Bream
Loretta M. Burd
Omar K. Reed

Governance Committee

Clark A. Peppers
Brian L. McDonnell
Michael B. Kitchen
Ralph B. Canterbury
Farouk Cu Goun Wang
Faye A. Patzner
Rudolf J. Hanley
Larry T. Wilson
Donna C. Blankenheim

IV. AFFILIATED COMPANIES

CUNA Mutual Insurance Society is the ultimate parent company of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of CUNA Mutual follows the organizational chart.

CUNA Mutual Insurance Society Organizational Chart As of December 31, 2000

CUNA Mutual Insurance Society (1)
CUNA Mutual Investment Corporation
 CUMIS Insurance Society, Inc.
 MEMBERS Life Insurance Company
 CMG Mortgage Insurance Group (2)
 MEMBERS Capital Advisors, Inc. (3)
 Stewart Associates Incorporated
 MEMBERS Development Company LLC (4)
 CUNA Mutual Insurance Agency, Inc.
 CUNA Mutual General Agency of Texas, Inc.
 CUNA Brokerage Services, Inc.
 CUNA Mutual Mortgage Corporation
The CUMIS Group, LTD. (Canada)
 CUMIS Life Insurance Company (Canada)
 CUMIS General Insurance Company (Canada)
 Canadian Northern Shield Insurance Company (Canada)
CUNA Mutual Australia Holding Company PTY LTD. (Australia)
 CUNA Mutual Life Australia, LTD. (Australia)
 finsure.australia LTD (Australia) (5)

- (1) CUNA Mutual Insurance Society and CUNA Mutual Life Insurance Company (CMLIC) are affiliated pursuant to a mutual agreement to have common management and shared operating functions. The two companies are independent with regard to their respective ownership interests, as each is a mutual insurer owned by its respective policyholders.
- (2) Comprised of three mortgage guaranty insurers, each of which is a joint venture that is 50% owned by CUNA Mutual Investment Corporation and 50% owned by PMI Mortgage Insurance Co.
- (3) 50% owned by CUNA Mutual Investment Corporation and 50% owned by CUNA Mutual Life Insurance Company.
- (4) 49% owned by CUNA Mutual Investment Corporation and 51% owned by various credit unions and credit union organizations.
- (5) 50% owned by CUNA Mutual Australia Holding Company PTY LTD.

CUNA Mutual Life Insurance Company (CMLIC)

CMLIC is an Iowa domiciled mutual life insurer that offers a full range of variable and universal life and health insurance products. CUNA Mutual and CMLIC entered into an Agreement of Permanent Affiliation effective July 1, 1990. Under the agreement, the companies have common management, and share functions such as legal, investment, and product administration services. CMLIC formerly was known as Century Life of America; its name was changed to CUNA Mutual Life Insurance Company effective December 31, 1996.

As of December 31, 2000, CMLIC's statutory financial statement reported total admitted assets of \$5.1 billion, total liabilities of \$4.9 billion, and capital and surplus of \$219 million. Operations for 2000 reported net income of \$6 million.

CUNA Mutual Investment Corporation (CMIC)

CMIC is a Wisconsin domiciled holding company that is a wholly owned subsidiary of CUNA Mutual Insurance Society. CMIC serves as a non-operating holding company for each of the CUNA Mutual operating companies domiciled in the United States.

As of December 31, 2000, CMIC's statutory basis audited financial statements reported total assets of \$426 million, total liabilities of \$26 million, and total stockholders' equity of \$400 million. In 2000, CMIC reported net income of \$67 million.

MEMBERS Life Insurance Company (MLIC)

MLIC is a Wisconsin domiciled stock life and health insurance company wholly owned by CMIC. MLIC primarily services existing blocks of individual and group life policies, and serves as a reinsurer of individual life and annuity policies written by the affiliated insurer CUNA Mutual Life Insurance Company.

As of December 31, 2000, MLIC's statutory financial statements reported total admitted assets of \$523,196,704, total liabilities of \$486,197,741, and capital and surplus of \$36,998,963. Operations for 2000 reported net income of \$5,895,008.

CUMIS Insurance Society, Inc. (CUMIS)

CUMIS is a Wisconsin domiciled property and casualty insurance company wholly owned by CMIC. CUMIS primarily markets commercial property and casualty insurance products to credit unions, including credit accident and health, workers compensation, and fidelity insurance coverages.

As of December 31, 2000, CUMIS' statutory financial statements reported total admitted assets of \$709,352,184, total liabilities of \$471,784,431, and capital and surplus of \$237,567,753. Operations for 2000 reported net income of \$36,078,462.

CMG Mortgage Insurance Group

The CMG mortgage insurance group is comprised of three Wisconsin domiciled mortgage guaranty insurers, including CMG Mortgage Insurance Company (CMG Mortgage), CMG Mortgage Reinsurance Company (CMG Re), and CMG Mortgage Assurance Company (CMG Assurance). Each CMG mortgage guaranty insurer is operated as an independently organized joint venture enterprise, with the capital stock of each respective company jointly owned 50% by CMIC and 50% by PMI Mortgage Insurance Company. CMG Mortgage is a direct writer of mortgage guaranty insurance, and provides coverage for first lien residential mortgage loans originated by credit unions. CMG Re assumes quota share reinsurance coverage of risks written by CMG Mortgage, to enable CMG Mortgage to comply with statutory restrictions on the amount of mortgage guaranty risks that an individual insurer is permitted to retain. CMG Assurance is authorized to insure loans on junior liens and second mortgages.

As of December 31, 2000, the CMG mortgage insurance group's statutory financial statements reported aggregate admitted assets of \$114 million, aggregate liabilities of \$60 million, and capital and surplus of \$54 million. Operations for 2000 reported net income of \$10 million.

MEMBERS Capital Advisors, Inc. (MCA)

MCA is an investment advisor and manager that is registered under the Investment Advisers Act of 1940. MCA is jointly owned 50% by CMIC and 50% by CMLIC, and acts as an investment advisor and portfolio manager for CUNA Mutual. MCA was organized in 1982 under the name Century Investment Management Company, and its name was changed to MEMBERS Capital Advisors, Inc. effective September 21, 2000.

As of December 31, 2000, MCA's audited financial statements reported total assets of \$26,282,470, total liabilities of \$8,682,104, and stockholders equity of \$17,600,366. Operations for 2000 reported net income of \$5,746,477.

Stewart Associates Incorporated (Stewart)

Stewart is an insurance agency formerly named Stewart and Associates, which was purchased by CMIC in 1998. Stewart was organized to maintain the former collateral protection insurance business of Stewart and Associates and to manage the ongoing collateral insurance program of the CUNA Mutual group.

As of December 31, 2000, Stewart's unaudited financial statements reported total assets of \$4,942,988, total liabilities of \$3,112,988, and shareholders equity of \$1,830,000. Operations reported for 2000 were break-even, and did not report a net income or loss.

CUNA Brokerage Services, Inc. (CBS)

CBS is registered with the Securities and Exchange Commission as a broker-dealer, and is a member of National Association of Securities Dealers, Inc. (NASD). CBS markets various financial products primarily to credit union members. CBS-marketed products include mutual funds, unit investment trusts, variable annuities, flexible premium variable life insurance, public limited partnerships, financial planning, and discount brokerage services.

As of December 31, 2000, CBS's audited financial statements reported total assets of \$5,244,903, total liabilities of \$2,022,310, and stockholders equity of \$3,222,593. Operations for 2000 reported net income of \$1,164,029.

CUNA Mutual General Agency of Texas, Inc. (CMGA)

CMGA is a Texas managing general agency that produces collateral protection insurance (CPI) issued to credit unions under a fronting arrangement with Old American County Mutual Fire Insurance Company (Old American). The business is written in Old American to satisfy Texas regulatory requirements that CPI business in Texas may be written solely by Texas domiciled insurers. The Old American business produced by CMGA is 100% ceded to CUMIS Insurance Society, Inc.

As of December 31, 2000, CMGA's unaudited financial statements reported total assets of \$734,871, total liabilities of \$253,443, and stockholders equity of \$481,428. Operations for 2000 reported a net loss of \$243,427.

CUNA Mutual Insurance Agency, Inc. (CMIA)

CMIA serves as an insurance brokerage affiliate to provide corporate and personal lines insurance brokerage and agency services.

As of December 31, 2000, CMIA's unaudited financial statements reported total assets of \$11,015,115, total liabilities of \$6,026,176, and stockholders equity of \$4,988,939. Operations for 2000 reported a net loss of \$1,321,043.

CUNA Mutual Mortgage Corporation (CMMC)

CMMC is a Wisconsin domiciled financial services corporation wholly owned by CMIC, and provides mortgage banking and loan services to credit unions. CMMC maintains a servicing portfolio of mortgage loans that it manages and services, and also originates mortgage loans. CMMC was formerly known as CUNA Mortgage Corporation, and its name was changed to the one presently used effective December 17, 1999.

As of December 31, 2000, CMMC's audited financial statements reported total assets of \$75,911,240, total liabilities of \$46,403,588, and total stockholders equity of \$29,507,652. Operations in 2000 reported a net loss of \$4,173,576.

The CUMIS Group, LTD (CUMIS Group)

CUMIS Group is an insurance holding company incorporated under the Canada Business Corporations Act. As of December 31, 2000, CUNA Mutual holds a 63.346% ownership interest in CUMIS Group; Canadian cooperatives and credit unions hold the remaining ownership interest. CUMIS Group, through its subsidiaries CUMIS Life Insurance Company (CUMIS Life), CUMIS General Insurance Company, and Canadian Northern Shield Insurance Company, underwrites, markets and services an array of insurance products that are offered to credit unions and credit union members in Canada. CUMIS Group insurance products include life, accident and sickness, property and casualty, and commercial insurance.

As of December 31, 2000, CUMIS Group's consolidated, audited financial statements reported total assets of Cdn\$464,019,208, total liabilities of Cdn\$402,099,821, and shareholders' equity of Cdn\$62 million. Operations in 2000 reported net income of Cdn\$8 million.

Affiliated Agreements

CUNA Mutual and its affiliates have various intercompany financial and services relationships that are governed by affiliated agreements. A brief summary of significant affiliated agreements pertaining to the company is provided below.

CUNA Mutual and CMLIC Permanent Affiliation

As noted previously in this report, CUNA Mutual and CMLIC are parties to an agreement of permanent affiliation whereby the two companies have unified executive management and corporate governance, and under which the two companies maintain unified operating functions. Pursuant to the permanent affiliation agreement, CUNA Mutual, MLIC and CMLIC provide mutual intercompany services, and their respective applicable direct and indirect expenses are assigned, allocated, or shared in accordance with provisions of the affiliation agreement. The affiliation provides that for certain lines of their respective direct business CUNA Mutual and CMLIC share as equal partners in the net profits of the two respective companies.

Tax Allocation Agreement

Effective January 1, 1987, CUNA Mutual and its affiliates entered into a restated tax allocation agreement for filing federal income tax returns on a consolidated basis. The tax liability of the affiliated group is allocated to individual member companies in accordance with Internal Revenue Service regulations. Each participating affiliate reimburses CUNA Mutual for payment of the affiliate's portion of liability included in the consolidated tax liability, and each respective affiliate receives its pro-rata share of consolidation-basis tax benefits.

Cost-Sharing Agreement

Effective January 1, 1993, CUNA Mutual, MLIC, and CUMIS established a cost-sharing agreement pertaining to allocation of costs paid by CUNA Mutual for administrative functions and services that CUNA Mutual provides to MLIC and CUMIS. Pursuant to the agreement, joint administrative costs are allocated monthly to MLIC and to CUMIS based on mutually agreed upon allocation methods that take into account appropriate time allocations, item counts, number of employees, or special studies.

Billing and Collections Services Agreement

Effective November 1, 2000, CUNA Mutual and its subsidiaries entered into a revised agreement for allocation of billing and collection services that are performed by CUNA Mutual. Services include processing of all billing notices, printing, mailing and distribution of billing notices, maintenance of customer billing and payment history information, processing and validation of payment receipts, daily electronic transfer of funds to the respective company's designated account, automated feed to the general ledger of all due and received premium, and daily and monthly reconciliation of deposit accounts and outstanding bills. Each participating company pays quarterly to CUNA a servicing fee based on mutually agreed upon allocation methods.

Procurement and Disbursement Services Agreement

Effective November 1, 2000, CUNA Mutual and its subsidiaries entered into a revised agreement for allocation of procurement and disbursement services that are performed by CUNA Mutual. Procurement services include maintenance of a company-wide procurement function, central processing of all requests for purchase, negotiation of purchase agreements and pricing, performance of lease/purchase analysis, and coordination of master inventory management. Disbursement services include processing all disbursement requests for general operating expenditures, facilitation of payment by the appropriate participating subsidiary, maintenance of vendor payment and voucher record archives, maintenance of detailed accrual and cash journal entries, and daily account reconciliation. Each participating company pays quarterly to CUNA a servicing fee based on mutually agreed upon allocation methods.

Investment Advisory Agreement

Effective September 8, 1994, CUNA Mutual and its affiliates entered into an investment advisory agreement with MEMBERS Capital Advisors, Inc. (MCA, formerly known as Century Investment Management Co). Under the agreement CUNA Mutual appointed MCA to act as the principal investment advisor and portfolio manager for the management and investment of the invested assets of CUNA Mutual and its respective affiliates. The agreement also appointed MCA as the principal investment advisor and manager of specified trust fund

assets that are held by United States Trust Company of New York as Trustee. MCA as advisor agreed to provide continuous professional investment management for the company and its affiliates, and to comply at all times to the policies, directives and guidelines established by the company's board of directors.

CMG Mortgage Insurance Group Agreements

CUNA Mutual has established separate administrative services agreements with each of the three CMG Mortgage insurance companies, CMG Mortgage, CMG Re, and CMG Assurance. Pursuant to the agreements, CUNA Mutual provides general management, sales, corporate insurance, investment accounting, government relations, and federal income tax return services to each of the three joint venture mortgage guaranty companies. In compensation for CUNA Mutual services, each of the mortgage guaranty insurers pays a quarterly service fee based on actual costs of services.

CUNA Mutual has established a trade name license agreement with CMG Mortgage, wherein CUNA Mutual granted to CMG Mortgage a royalty-free, non-exclusive right and license in the United States to use the term "CMG," a CUNA Mutual Group trade name, as part of the CMG Mortgage corporate name, corporate trade name, and corporate trademarks and service marks. The agreement establishes certain requirements and prohibitions on the authority of CMG Mortgage to use the term "CMG." The agreement provides that any use of the mark "CMG" by CMG Mortgage shall inure for the benefit of CUNA Mutual Group, and provides that CMG Mortgage acknowledges the validity of the mark "CMG" and CUNA Mutual Group's exclusive right, title, and interest in the mark.

Effective September 30, 1999, CUNA Mutual agreed to make capital contributions to the policyholder surplus of CMG Mortgage as necessary to guarantee that the risk-to-capital ratio of CMG Mortgage is maintained at not greater than 18 to 1 at the end of each calendar quarter. The guarantee was established in order for CMG Mortgage to obtain an AA rating from Fitch IBCA, Inc. As of December 2000, no payment had been made under the guarantee agreement.

Australian Insurance Services and Agency Agreements

Effective November 11, 1999, CUNA Mutual entered into an insurance services agreement with an affiliate, finsure.australia limited ("finsure"). Finsure is an Australian financial services company that is 50% owned by an Australian holding company subsidiary of CUNA Mutual. Pursuant to the services and agency agreement, finsure provides various data processing, accounting, payroll, cash management, policy administration, and marketing services on behalf of the company. Finsure agreed to provide management, administrative, marketing and support services in connection with the conduct of the company's life and health insurance business in Australia. CUMIS entered into a similar services and agency agreement with finsure with regard services provided for CUMIS's Australian property and casualty insurance business.

Interest Rate Swap Agreement

Effective February 28, 1995, CUNA Mutual and MLIC entered into an interest rate swap agreement. CUNA Mutual and MLIC agreed to swap interest rate returns semi-annually over a five-year period, with interest calculated on the basis of the notional amount of \$200,000,000. MLIC agreed to pay interest at a rate of 7.04% per annum. CUNA Mutual agreed to pay interest at a rate of 7.04% plus any amount over 8.04% or minus any amount under 6.39%, as determined using the index of the five-year treasury constant maturity. In 2000, CUNA Mutual paid to MLIC a net differential of \$220,000. The agreement expired February 28, 2000.

V. REINSURANCE

CUNA Mutual Insurance Society's reinsurance portfolio and strategy are described below. The company's primary reinsurance program includes cessions of reinsurance under the company's affiliation with CMLIC, cessions for the run-off of a now-terminated joint venture, assumption of risks through participation in FEGLI and SGLI pools, and assumption of international risks written by both affiliates and non-affiliates in the credit union industry. Each reinsurance contract contained proper insolvency provisions.

Affiliated Ceding Contracts

CUNA Mutual cedes a portion of its direct written individual life and annuity business to the affiliated insurer CUNA Mutual Life Insurance Company. In calendar year 2000, reinsurance premiums ceded from CMIC to CMLIC were \$41.8 million, and equaled 59% of the total premium ceded by the company.

The reinsurance treaty with CMLIC was established as a component agreement of the 1990 affiliation agreement between CUNA Mutual and CMLIC. Pursuant the affiliation agreement, the net profits of CUNA Mutual and CMLIC from portions of their respective direct written business is shared equally by the other party through reinsurance. Through CUNA Mutual's cession to CMLIC, CMLIC is afforded a 50% affiliate participation in the ongoing direct written life and accidental death business of CUNA Mutual. Corresponding reinsurance agreements between MEMBERS Life Insurance Company and CMLIC provide for the CMLIC cession to MLIC of a 50% portion of CMLIC's direct individual life and annuity business. The total net amount ceded, including any prior cessions, is limited to a maximum of \$250,000 on any individual life insured.

CUNA Mutual cedes to the affiliate CUMIS Life Insurance Company (CUMIS Life) a 50% pro rata portion the Canadian business written by CUNA Mutual and existing as of January 1, 1983. The subject business includes all of the individual life policies except member's individual life, all pension and trust policies, and all then-existing riders to such policies. CUNA Mutual has not written any new Canadian business since commencement of this agreement and

does not intend to write further business. The reinsurance contract was established to transfer to CUMIS Life a 50% profit-share of the net income realized on the subject business.

Examination review of the company's financial reports determined that CUNA Mutual has historically reported the CUMIS Life transaction as funds held by the reinsurer rather than as reinsurance. Further examination comment and recommendation are included in the findings section of this report captioned "Financial Reporting."

Unaffiliated Ceding Contracts

CUNA Mutual cedes individual life and health insurance risks to Peoples Benefit Life Insurance Company, formerly known as National Home Life Assurance Company (NHLAC). Premium ceded in 2000 was \$28.5 million, amounting to 40% of the total premium ceded by the company. The business ceded is for policies written from 1983 through 1993 under a joint venture relationship between CUNA Mutual (and its affiliates) and NHLAC and its affiliate National Liberty Marketing (NLM). NLM was a direct response marketing company for NHLAC and other affiliate insurer's life and health insurance products.

Under the former joint venture agreement, CUNA Mutual and NHLAC established equal participation in the management and profitability of a joint venture in which life and health insurance products were written on a direct basis by CUNA Mutual and marketed to credit union members through direct response marketing operations conducted by NLM. The joint venture reinsurance contract provides that CUNA Mutual cedes an automatic 50% quota share of the policies issued by the company and marketed by NLM, and the company and the reinsurer each retain their respective share of claims liability and loss reserves. Under the coinsurance treaty, CUNA Mutual pays to the reinsurer monthly consideration equal to 50% of the statutory basis pre-tax net profits of the reinsured business. The joint venture terminated in 1993 pursuant to provisions of the joint venture agreement, and the book of business under which the reinsurance cessions are made is comprised solely of renewal policies in run-off.

Affiliated Assuming Contracts

As of year-end 2000 the company assumed a portion of the risks written on a direct basis by the subsidiary insurer CUNA Caribbean Insurance Society, Ltd (CUNA Caribbean). The business assumed by the company from CUNA Caribbean represents the portion of the subsidiary's writings that exceed the subsidiary's desired retentions. Lines of business written include loan protection and savings protection coverages.

The Caribbean business is written pursuant to an agent services agreement between CUNA Mutual and CUNA Caribbean, whereby CUNA Caribbean sells and services the business in the capacity of agent. The agency services include sales solicitation, premium processing, claims processing, underwriting, and policy servicing. The company pays the agent an annual fee based on estimated annual agent employee time and salary costs related to the agency duties performed under the agreement.

Unaffiliated Assuming Contracts

The company is a reinsurer member in the Federal Employees Group Life Insurance (FEGLI) conversion pool, under a FEGLI group policy issued and administered by Metropolitan Life Insurance Company (Metropolitan). As a pool participant, CUNA Mutual issues individual life insurance conversion policies for risks that are eligible for conversion under the FEGLI group policy. Each conversion policy is normally covered by the conversion pool for a ten-year period. As of year-end 2000 the company had a 3.3% participation in the Metropolitan FEGLI pool.

The company is also a participating reinsurer member in the Servicemen's Group Life Insurance (SGLI) conversion pool, under a SGLI group policy issued and administered by The Prudential Life Insurance Company of America (Prudential). As a pool participant, the company issues individual life insurance conversion policies for risks that are eligible for conversion under the SGLI group policy. Each conversion policy is normally covered by the conversion pool for a fifteen-year period. As of year-end 2000 the company had a 1.5% participation in the Prudential SGLI pool.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

CUNA Mutual Insurance Society
Assets
As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$1,332,739,223		\$1,548,605	\$1,331,190,618
Stocks:				
Preferred stocks	15,079,888			15,079,888
Common stocks	263,002,229	\$239,202,620		502,204,849
Mortgage loans on real estate:				
First liens	75,763,895			75,763,895
Real estate:				
Occupied by the company	41,521,557			41,521,557
Investment real estate	20,054,712		376,409	19,678,303
Policy loans	6,613,475			6,613,475
Cash	10,598,421			10,598,421
Short-term investments	55,239,972			55,239,972
Other invested assets	26,732,141			26,732,141
Receivable for securities	28,069,394			28,069,394
Reinsurance ceded:				
Amounts recoverable from reinsurers	562,661	20,558		583,219
Commissions and expense allowances due	5,331,775		516,099	4,815,676
Experience rating and other refunds due		540,343		540,343
Other amounts receivable under reinsurance contracts	433,672			433,672
Electronic data processing equipment	19,254,875		7,430,299	11,824,576
Federal income tax recoverable and interest thereon		7,355,451		7,355,451
Guaranty funds receivable	1,965,856			1,965,856
Life premiums and annuity considerations deferred and uncollected		51,570,541	818,274	50,752,267
Accident and health premiums due and unpaid		34,646,057	367,208	34,278,849
Investment income due and accrued		19,300,139		19,300,139
Receivable from parent, subsidiaries and affiliates	16,747,997	16,443,266		33,191,263
Other assets nonadmitted:				
Furniture and equipment	3,675,519		3,675,519	
Cash advanced to or in hands of officers or agents	65,720		65,720	
Write-ins for other than invested assets:				
Amounts Receivable from Non-Affiliates	4,425,325	2,607		4,427,932
Net Accrued Retrospective Premium		2,447,001		2,447,001
Miscellaneous – Other Assets MM	30,000			30,000
Phone Deposit, Script Deposit, & Business Deposit	67,703		67,703	
Funds Held by Reinsurers		221,531		221,531
Prepaid Expenses	<u>1,882,158</u>		<u>1,882,158</u>	
Total Assets	<u>\$1,929,858,168</u>	<u>\$371,750,114</u>	<u>\$16,747,994</u>	<u>\$2,284,860,288</u>

CUNA Mutual Insurance Society
Liabilities, Surplus, and Other Funds
As of December 31, 2000

Aggregate reserve for life policies and contracts	\$406,530,351
Aggregate reserve for accident and health policies	425,515,763
Supplementary contracts without life contingencies	1,609,667
Policy and contract claims:	
Life	55,282,856
Accident and health	37,547,744
Policyholders' dividend and coupon accumulations	5,651,799
Policyholders' dividends and coupons due and unpaid	1,005
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment to December 31, 2000	3,237,558
Premiums and annuity considerations received in advance	607,069
Liability for premium and other deposit funds:	
Policyholder premiums	20,216
Guaranteed investment contracts	1,629,569
Other contract deposit funds	506,379,290
Policy and contract liabilities not included elsewhere:	
Provision for experience rating refunds	21,149,163
Commissions to agents due or accrued	155,909
Commissions and expense allowances payable on reinsurance assumed	63,361
General expenses due or accrued	86,805,278
Taxes, licenses, and fees due or accrued, excluding federal income taxes	4,182,155
Unearned investment income	4,530
Amounts withheld or retained by company as agent or trustee	2,297,647
Remittances and items not allocated	(4,054,872)
Miscellaneous liabilities:	
Asset valuation reserve	34,851,821
Reinsurance in unauthorized companies	20,203
Payable to parent, subsidiaries and affiliates	8,060,718
Payable for securities	21,755,436
Write-ins for liabilities:	
<i>Provision for Health Benefits for Retirees</i>	57,200,000
<i>Conditional Liab. – Provisional Benefit for Empl., Retirees, & BOD</i>	26,322,656
<i>Amounts Payable to Reinsurers</i>	5,175,727
<i>Reserve for Checks Charged-off</i>	1,021,533
<i>Conversion Costs Due or Accrued</i>	794
<i>Reserve for Early Retirement Benefits</i>	735,311
<i>Reserve for Projected Investments Losses</i>	528,050
Total Liabilities	<u>1,710,288,307</u>
Write-ins for special surplus funds:	
Permanent Surplus Fund	500,000
Unassigned funds (surplus)	<u>574,071,981</u>
Surplus	<u>574,571,981</u>
Total Liabilities, Surplus, and Other Funds	<u>\$2,284,860,288</u>

CUNA Mutual Insurance Society
Summary of Operations
For the Year 2000

Premiums and annuity considerations	\$925,481,219
Deposit-type funds	269,112,757
Considerations for supplementary contracts with life contingencies	134
Considerations for supplementary contracts without life contingencies and dividend accumulations	1,010,213
Net investment income	300,535,044
Amortization of interest maintenance reserve	907,156
Commissions and expense allowances on reinsurance ceded	54,554,825
Reserve adjustments on reinsurance ceded	
Miscellaneous income:	
Write-ins for miscellaneous income:	
Administrative Service Fees	11,063,336
Miscellaneous Income	7,759,107
Net Transfers Under Reinsurance Ceded	203,069
FEGLI/SEGLI Conversion Pool Income	49,078
Total income items	\$1,570,675,938
Death benefits	318,228,485
Matured endowments	16,203
Annuity benefits	15,056,017
Disability benefits and benefits under accident and health policies	263,860,822
Surrender benefits and other funds withdrawals	341,097,205
Group conversions	156,452
Interest on policy or contract funds	1,135,241
Payments on supplementary contracts with life contingencies	1,230,985
Payments on supplementary contracts without life contingencies and of dividend accumulations	835,819
Increase in aggregate reserve for life and accident and health policies and contracts	38,678,707
Increase in liability for premium and other deposit funds	(22,226,698)
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	575,929
Subtotal	958,645,167
Commissions on premiums, annuity considerations, and deposit type funds	1,508,439
Commissions and expense allowances on reinsurance assumed	635,080
General insurance expenses	370,235,219
Insurance taxes, licenses, and fees excluding federal income taxes	25,759,852
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	520,761
Write-in for deductions:	
Miscellaneous Expense	236,378
Fines and Penalties of Regulators	5,956
Total deductions	<u>\$1,357,546,852</u>

Net gain from operations before dividends to policyholders and federal income taxes	213,129,086
Dividends to policyholders	<u>4,178,326</u>
Net gain from operations after dividends to policyholders and before federal income taxes	208,950,760
Federal income taxes incurred (excluding tax on capital gains)	<u>3,164,350</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	205,786,410
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	<u>(2,286,069)</u>
Net Income	<u>\$203,500,341</u>

CUNA Mutual Insurance Society
Cash Flow
As of December 31, 2000

Premiums and annuity considerations	\$923,809,311	
Deposit-type funds	269,112,757	
Considerations for supplementary contracts with life contingencies	135	
Considerations for supplementary contracts without life contingencies and dividend accumulations	1,010,213	
Net investment income	302,090,976	
Commissions and expense allowances on reinsurance ceded	54,554,825	
Write-ins for miscellaneous income:		
Administrative Service Fees	11,063,336	
Miscellaneous Income	7,808,969	
Liability for the Health Benefits of Retirees	6,556,904	
Change in Conditional Liability for Provisional Benefits for Employees, BD of Directors	3,321,588	
FEGLI/SGLI Conversion Pool Income	49,078	
Net Transfers Under Reinsurance Ceded	447,828	
Total		\$1,579,825,920
Death benefits	320,176,873	
Matured endowments	16,203	
Annuity benefits	15,056,017	
Disability benefits and benefits under accident and health policies	256,219,937	
Surrender benefits and other fund withdrawals	341,097,205	
Group conversions	157,820	
Interest on policy or contract funds	1,135,299	
Payments on supplementary contracts with life contingencies	1,230,985	
Payments on supplementary contracts without life contingencies and of dividend accumulations	835,820	
Subtotal		\$935,926,159
Commissions on premiums, annuity considerations, and deposit type funds	1,409,551	
Commissions and expense allowances on reinsurance assumed	707,393	
General insurance expenses	364,671,933	
Insurance taxes, licenses and fees, excluding federal income taxes	27,031,322	
Write-ins for deductions:		
Life Reserve Cash Settlement	4,399,712	
Amounts Payable to Reinsurers	1,451,022	
Reserve for Early Retirement Benefits	789,577	
A&H Reserve Cash Settlement	176,541	
Penalties and Forfeitures	5,956	
Miscellaneous Disbursements	235,042	
Dividends paid to policyholders	5,738,643	
Federal income taxes (excluding tax on capital gains)	(6,467,470)	
Total deductions		<u>\$1,336,075,381</u>
Net cash from operations		\$243,750,539

Proceeds from investments sold, matured, or repaid:		
Bonds	738,562,081	
Stocks	28,882,974	
Mortgage loans	12,302,799	
Other invested assets	49,017,873	
Net gains or (losses) on cash and short-term investments	(2,200,887)	
Miscellaneous proceeds	<u>31,599</u>	
Total investment proceeds		826,596,439
Cost of investments acquired (long-term only):		
Bonds	922,860,909	
Stocks	85,328,571	
Mortgage loans	8,390,000	
Real estate	3,189,998	
Other invested assets	35,033,946	
Miscellaneous applications	<u>508,998</u>	
Total investments acquired		1,055,312,422
Net increase in policy loans and premium notes		<u>23,050</u>
Net cash from investments		(228,739,033)
Cash provided from financing and miscellaneous sources:		
Other sources	<u>21,635,129</u>	
Total	21,635,129	
Cash applied for financing and miscellaneous uses:		
Other applications		<u>\$44,648,746</u>
Total		<u>\$44,648,746</u>
Net cash from financing and miscellaneous sources		<u>(23,013,617)</u>
Net change in cash and short-term investments		(8,002,111)
Reconciliation		
Cash and short-term investments,		
December 31, 1999		<u>73,840,500</u>
Cash and short-term investments,		
December 31, 2000		<u>\$65,838,389</u>

CUNA Mutual Insurance Society
Compulsory and Security Surplus Calculation
December 31, 2000

Assets		\$2,284,860,288	
Less investment in insurance subsidiaries not in excess of subsidiaries' security surplus		169,941,451	
Less liabilities		<u>1,710,288,307</u>	
Adjusted surplus			\$404,630,530
Annual premium:			
Individual life and health	\$16,006,645		
Factor	<u>15%</u>		
Total		2,400,997	
Group life and health	879,231,959		
Factor	<u>10%</u>		
Total		87,923,196	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>\$1,715,473</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>112,229,742</u>
Compulsory surplus excess			<u>\$292,400,788</u>
Adjusted surplus			404,630,530
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>123,452,716</u>
Security surplus excess			<u>\$281,177,814</u>

CUNA Mutual Insurance Society
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1996	1997	1998	1999	2000
Surplus, beginning of year	\$287,394,995	\$317,293,889	\$343,068,933	\$390,752,480	\$423,193,245
Net income	13,535,960	(6,052,454)	38,831,876	4,291,816	203,500,341
Change in net unrealized capital gains or (losses)	40,655,464	63,031,872	16,404,359	52,179,726	(170,552,054)
Change in nonadmitted assets and related items	(585,718)	(239,665)	(4,084,796)	(260,760)	(6,813,023)
Change in liability for reinsurance in unauthorized companies	(472)	(259,527)	256,311	(817)	(7,933)
Change in reserve on account of change in valuation basis	(607,026)				
Change in asset valuation reserve	(15,398,544)	(22,672,888)	(2,837,479)	(23,858,002)	125,206,964
Write-ins for gains and (losses) in surplus:					
Transfer to group life contingency from general contingency	6,741,230	6,758,662	6,890,974	7,103,556	(135,754,989)
Transfer from general contingency to group life contingency	(6,741,230)	(6,758,662)	(6,890,974)	(7,103,556)	135,754,989
Net adjustment 1995 group A&H UPR	164,679				
Net adjustment 1995 group life UPR	20,049				
Net adjustments due to foreign exchange	7,712	102,997	177,156	88,802	(627,509)
Change in reserve basis reflected in Exhibit II	515				
Over/short write off	(52,903)	6,483			
Adjustment to 1995 group life Uncollected premium	(97,313)				
Net adjustment to ledger assets/liabilities	(148,025)	68,020	(463,880)		
Change in reserve for projected investment results	(700,000)	100,000	(600,000)		671,950
Adjustment to 1995 group A&H uncollected premium	(2,352,484)				
Prior-year adjustments for compensated absences	(4,543,000)				
Miscellaneous adjustments		(428)			
Australia value added commission		(309,366)			
Change in accounting for mainframe computer lease		(8,000,000)			
Surplus, end of year	<u>\$317,293,889</u>	<u>\$343,068,933</u>	<u>\$390,752,480</u>	<u>\$423,193,245</u>	<u>\$574,571,981</u>

CUNA Mutual Insurance Society
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2000

The following is a summary of the company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional IRIS ratios are denoted with asterisks. A discussion of the exceptional ratios is included following the table of IRIS ratios.

	Ratio	1996	1997	1998	1999	2000
#1	Net change in capital & surplus	10%	8%	14%	8%	36%
#1A	Gross change capital & surplus	10%	8%	14%	8%	36%
#2	Net income to total income	1%	-1% *	3%	0% *	13%
#4	Adequacy of investment income	172%	174%	282%	201%	999% *
#5	Non-admitted to admitted assets	0	0	1	1	1
#6	Total real estate & mortgage loans to cash & invested assets	8	7	7	7	7
#7	Total affiliated investments to capital & surplus	154% *	160% *	149% *	154% *	88%
#8	Surplus relief	14%	11%	12%	12%	9%
#9	Change in premium	3%	3%	8%	10%	1%
#10	Change in product mix	0%	0%	1%	1%	1%
#11	Change in asset mix	1%	1%	0%	0%	1.1%
#12	Change in reserving ratio	21% *	3%	-45% *	42% *	0%

The exceptional results for IRIS ratio number 2, net income to total income, in 1997 and 1999 were due to net losses from operations in those years. The net operating losses were primarily attributable to high surrender benefits and other fund withdrawals experienced by the company in 1997 and 1999.

The exceptional result for IRIS ratio number 4, adequacy of investment income, in 2000 was due to the large amount of dividends paid to the company by its affiliates relative to the amount of the company's investment in affiliates. In 2000 CUMIS and MLIC paid to CMIC dividends of \$175 million and \$25 million, respectively. Subsequent to its receipt of the dividends paid by CUMIS and MLIC, CMIC paid a dividend of \$200 million to CUNA Mutual.

The exceptional results for IRIS ratio number 7 from 1996 through 1999 were due to the large size of the company's affiliated assets relative to surplus.

The exceptional results for IRIS ratio number 12, change in reserving ratio, in 1996, 1998, and 1999 were due to changes in reserves for ordinary life insurance policies. According to the company, the exceptional ratios were caused by foreign currency translation of life insurance premium and reserves for policies in foreign countries.

Growth of CUNA Mutual Insurance Society

Year	Admitted Assets	Liabilities	Surplus
1996	\$2,011,809,952	\$1,694,516,063	\$317,293,889
1997	2,087,399,405	1,744,330,472	343,068,933
1998	2,130,631,070	1,739,878,587	390,752,483
1999	2,220,438,129	1,797,244,884	423,193,245
2000	2,284,860,288	1,710,288,307	574,571,981

Life Insurance in Force (in Thousands)

Year	Gross Direct And Assumed	Ceded	Net
1996	\$84,838,716	\$5,356,737	\$79,481,979
1997	85,849,356	5,455,575	80,393,781
1998	86,144,453	5,640,969	80,503,484
1999	88,479,070	5,714,855	82,764,215
2000	89,902,764	5,657,267	84,245,497

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1996	\$414,957,075	\$278,369,728	\$(20,848,244)	\$176,448,174	104.7%
1997	433,359,125	302,174,985	(18,795,895)	184,726,260	108.1%
1998	457,615,919	316,391,254	(19,682,664)	198,883,441	108.3%
1999	451,440,049	303,135,942	(24,931,012)	210,329,282	108.1%
2000	430,746,459	283,143,564	(27,660,068)	214,094,415	109.1%

Reconciliation of Surplus per Examination

The examination did not make any adjustments to reported surplus. The examination determined that as of December 31, 2000, the company had policyholder surplus of \$574,571,981.

Examination Reclassifications

	Debit	Credit
Remittances and Items Not Allocated Affiliated Assets	<u>\$5,095,024</u>	<u>\$5,095,024</u>
Total reclassifications	<u>\$5,095,024</u>	<u>\$5,095,024</u>

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The prior examination of the company made five recommendations pertaining to matters of financial regulation and twelve recommendations pertaining to matters of market conduct regulation. Current examination comment in this report on the prior recommendations is limited to review of the financial regulation recommendations. Financial regulation comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. **Dividend and Coupon Accumulations**—It is recommended that the company review its procedures and test its accounting systems to ensure that an adequate dividend and coupon accumulation liability is being established.

Action—Compliance

2. **Accident and Health Premiums Due and Unpaid**—It is recommended that the company review its procedures to ensure that group A&H billings are not delayed, and that the amounts due on this business appear reasonable based on changes in total premium.

Action—Compliance

3. **Reserves on Canadian Operations**—It is recommended that the company take steps necessary to assure that accurate reserve results are received from its Canadian affiliates in time to be incorporated into future printed annual statements.

Action—Compliance

4. **Custodial Agreements**—It is recommended that the company amend its custodial agreement, by adding sufficient indemnification provisions, stating that the securities shall be promptly replaced, or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

Action—Compliance

5. **Write-in Items for Gains or Losses in Surplus**—It is recommended that the company include all usual and ordinary adjustments to federal income taxes within the income statement, and not as a direct adjustment to surplus. It is further recommended that all other recurring adjustments, such as “over/short write-off,” be included above the line in net income, rather than as direct adjustments to surplus on future annual statements.

Action—Compliance

Summary of Current Examination Results

Biographical Disclosures

During the years under examination, the company did not provide to the Commissioner biographical disclosures upon the selection or appointment of new officers and directors. Requirement for biographical disclosure is established pursuant to s. 611.54, Wis. Stat., and by s. Ins 6.52 (5), Wis. Adm. Code, which provides that an insurer shall disclose biographical information with respect to the appointment or election of any new director, trustee, or officer within fifteen days of the appointment or election. It is recommended that the company provide timely biographical disclosure upon the appointment or election of new officers and directors, in compliance with s. 611.54, Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code.

Incentive Compensation Disclosure

The company has established and maintains incentive compensation programs for employees, including staff employees, members of the company's executive leadership team, and the chief executive officer. The incentive programs were properly voted upon and approved by the company's board of directors, and provide for incentive compensation based on an individual's job performance relative to stated and agreed upon annual performance targets and evaluation standards.

As provided in s. 611.63 (3), Wis. Stat., a mutual insurer shall report to the Commissioner any action taken by the insurer's board of directors that pertains to the establishment or modification of pension plans and incentive compensation programs for company officers, directors and employees. The statute provides that an insurer shall provide incentive compensation reporting within thirty days following the board of director's action. The company did not report board of director actions with regard to incentive compensation plans during the period under examination. It is recommended that the company report to the Commissioner actions taken by the board regarding pension and incentive compensation programs within thirty days of board approval, in compliance with s. 611.63 (3), Wis. Stat.

Invested Assets—SVO Compliance

Examination review of the company's bond investments determined that the company did not make all of the required filings of its bond securities with the NAIC Securities Valuation Office (SVO) for SVO valuation purposes. In addition, the company incorrectly reported SVO securities designations in the annual statement Schedule D. The company's SVO filings and financial reporting of securities designations were not in compliance with the requirements established for insurers by the Purposes and Procedures Manual of the NAIC Securities Valuation Office. The examination waived adjustment to non-admit the unfilled securities for purposes of this examination and for the 2001 annual statement filing, based on steps that the company has undertaken to correct its filing and reporting deficiencies.

It is recommended that the company establish the following corrective procedures:

1. All securities held by the company that have not been filed with the SVO and that are not exempt from SVO filing requirements be sold or filed with the SVO within 120 days.
2. All new securities purchased by the company that are not rated by the SVO and that are not exempt from SVO filing requirements be filed with the SVO within 120 days of purchase.
3. The company evaluate at least monthly the SVO valuation status of all investments its invested securities and will make all necessary annual filings to maintain SVO valuations for all securities held that are not exempt from SVO filing requirements.
4. The company provide to the Commissioner copies of all filings made to the SVO.

Loaned Securities Disclosures

The company participates in investment securities lending. Under the securities lending program, securities are loaned through investment intermediaries to third party investors.

Examination review determined that the company properly disclosed in the annual statement general interrogatories the aggregate amount of securities loaned, and the company properly identified in Schedule D the individual loaned securities. However, there are further required disclosures for which the company was not in compliance. Annual statement instructions provide that, for loaned securities, an insurer shall attach a schedule to report transaction information for each security owned at year-end, including dates of transactions, complete description of securities involved, market value data on the dates of the transactions,

form of collateral information, and other pertinent information. It is recommended that the company disclose in its statutory annual statements loaned securities supplemental transaction information, in compliance with NAIC Annual Statement Instructions—Life, Accident, and Health.

Financial Reporting—Common Stock

CUNA Mutual Insurance Society is the ultimate controlling entity for two families of proprietary managed investment funds, the Ultra Series Funds and the MEMBERS Mutual Funds. The Ultra Series Funds were originally established by CMLIC in 1983 as an Iowa domiciled trust, and offer CMLIC variable life insurance investment products to credit union members. MEMBERS Mutual Funds is an open-end management investment company organized in 1997 as a Delaware domiciled business trust, and offers a family of seven mutual fund portfolios that are marketed to credit union members. MEMBERS Capital Advisor's, Inc., which is jointly owned 50% by CUNA Mutual and 50% by CMLIC, administers the two families of funds.

In 2000, CUNA Mutual provided \$9 million of seed money to Ultra Series Funds and \$8.9 million to MEMBERS Mutual Funds. CUNA Mutual reported its holdings in these funds in Schedule D of its annual statement as unaffiliated investments. For purposes of investment classification, CUNA Mutual is a controlling affiliate of the Ultra Series Funds and MEMBERS Mutual Funds within the meaning of ch. 600.03 (2) and (13), Wis. Stat, and the company should classify its investments in the two funds families as affiliated common stock. It is recommended that the company report its investments in Ultra Series Funds and MEMBERS Mutual Funds under the classification "Common Stock—Parent, Subsidiaries, and Affiliates" in Schedule D of the company's statutory annual statements.

Financial Reporting—Annual Statement Schedule S

As discussed in the section of this report captioned "Reinsurance," CUNA Mutual ceded its Canadian policies to its affiliate, CUMIS Life, under a 1983 reinsurance agreement. The ceded business is a 50% pro rata portion of the company's net retained loss for individual life policies, pension and trust policies, and all riders to such policies, that existed effective January 1, 1983, for business written in Canada by CUNA Mutual. The company has not written any new policies in Canada subsequent to January 1, 1983.

As of year-end 2000, the company had a net liability balance outstanding for the CUMIS Life reinsurance. The company reported its year-end liability as a write-in balance sheet account, and did not include it in reinsurance reported on annual statement Schedule S. The examination review of the reinsurance treaty determined that the treaty is a reinsurance contract that should have been reported in Schedule S. It is recommended that the company report its reinsurance treaty with CUMIS Life as a reinsurance transaction in Schedule S of its statutory annual statements, in conformity with NAIC Annual Statement Instructions—Life, Accident, and Health.

Financial Reporting

NAIC Annual statement instructions provide that in Schedule Y, Part 2, an insurer shall report intercompany transactions between affiliated insurers that are not of a routine nature and that equal or exceed one-half of one percent of the largest company's admitted assets. During 2000, CUMIS invested \$15 million in MEMBERS Mutual Funds. CUNA Mutual's 2000 annual statement Schedule Y, Part 2, did not disclose this affiliated transactions even though it exceeded the threshold for disclosure. It is recommended that the company report in Schedule Y of its statutory annual statements material transactions among affiliated insurers, in conformity with NAIC Annual Statement Instructions—Life, Accident, and Health.

Financial Reporting—Annual Statement Schedule T

The examination review of company records pertaining to annual statement Schedule T detail determined that the company did not have documentation of its license authority in two jurisdictions, Guam and the U.S. Virgin Islands, for which the company reported that it was licensed in Schedule T disclosures. It is recommended that the company obtain documentation of its license authorization in each jurisdiction in which it is licensed, and that the company maintain documentation pertaining to its licensure authorization in the various jurisdictions.

Other Assets

The admitted assets reported in the company's 2000 annual statement incorrectly included immaterial amounts for corporate trademarks, corporate name rights, and rights under

non-compete agreements. The amounts that were improperly classified by the company as admitted assets were not material, and the examination did not make an adjustment to surplus. It is recommended that the company properly classify and report its intangible assets as non-admitted assets in its statutory financial statements, in conformity with the NAIC Accounting Practices and Procedures Manual.

Remittances and Items Not Allocated

CUNA Mutual's 2000 annual statement reported a \$4 million debit balance for the liability account remittances and items not allocated. Under statutory accounting practice, the remittances and items not allocated account is customarily used to report liability for unallocated premium and cash receipts. Unallocated amounts typically consist of premium receipts that are either payment for policies that are not yet issued or are payments that differ from billed and due amounts. The annual statement instructions provide that premium suspense credit balances shall not be offset by unrelated suspense debit balances, and that such debit suspense balances should be reported as a separate asset balance to the extent that they are not offset by related liability items.

The examination determined that the company's reported balance consisted primarily of affiliated transactions in the course of settlement having a net debit balance. The examination reclassified \$5,095,024 of the reported items and remittances not allocated to the account "payable to parent, subsidiaries, and affiliates." It is recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability accounts, in conformity with NAIC Annual Statement Instructions—Life, Accident, and Health.

VIII. CONCLUSION

CUNA Mutual Insurance Society is a Wisconsin domiciled mutual life and health insurer. CUNA Mutual is the parent of an extensive holding company system, and the company and its affiliates provide group and individual life insurance, accident and health insurance, property and casualty insurance, and other insurance products and financial services to credit unions and credit union members.

In 1990, the company established a permanent business affiliation with CUNA Mutual Life Insurance Company, an Iowa domiciled mutual life and health insurer. Under the affiliation, CUNA Mutual and CMLIC have common management, and maintain integrated business functions and operations. CUNA Mutual and CMLIC share the net operating profits and losses on certain portions of business written on a direct basis by the respective companies. The profit sharing is transacted through reinsurance contracts under which the two companies mutually cede 50% pro rata reinsurance for their respective direct business for lines subject to profit sharing. MEMBERS Life Insurance Company assumes as reinsurance all of the profit sharing business ceded by CMLIC under the affiliation of CUNA Mutual with CMLIC.

The examination determined that the company complied with the recommendations of the previous examination. The current examination made ten recommendations and one reclassification. The examination did not make any adjustment to reported surplus.

The account reclassification noted above resulted in an increase per examination of \$4 million in the company's total assets and total liabilities. The examination determined that, as of December 31, 2000, the company had total admitted assets of \$2,289,955,312, total liabilities of \$1,715,383,331, and policyholders' surplus of \$574,571,981.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 37 Biographical Disclosures—It is recommended that the company provide timely biographical disclosure upon the appointment or election of new officers and directors, in compliance with s. 611.54, Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code.
2. Page 37 Incentive Compensation Disclosures—It is recommended that the company report to the Commissioner actions taken by the board regarding pension and incentive compensation programs within thirty days of board approval, in compliance with s. 611.63 (3), Wis. Stat.
3. Page 38 Invested Assets—SVO Compliance—It is recommended that the company establish the following corrective procedures:
 1. All securities held by the company that have not been filed with the SVO and that are not exempt from SVO filing requirements be sold or filed with the SVO within 120 days.
 2. All new securities purchased by the company that are not rated by the SVO and that are not exempt from SVO filing requirements be filed with the SVO within 120 days of purchase.
 3. The company evaluate at least monthly the SVO valuation status of all investments its invested securities and will make all necessary annual filings to maintain SVO valuations for all securities held that are not exempt from SVO filing requirements.
 4. The company provide to the Commissioner copies of all filings made to the SVO.
4. Page 39 Loaned Securities Disclosures—It is recommended that the company disclose in its statutory annual statements loaned securities supplemental transaction information, in compliance with NAIC Annual Statement Instructions—Life, Accident, and Health.
5. Page 40 Financial Reporting—Common Stock—It is recommended that the company report its investments in Ultra Series Funds and MEMBERS Mutual Funds under the classification “Common Stock—Parent, Subsidiaries, and Affiliates” in Schedule D of the company’s statutory annual statements.
6. Page 40 Financial Reporting—Annual Statement Schedule S—It is recommended that the company report its reinsurance treaty with CUMIS Life as a reinsurance transaction in Schedule S of its statutory annual statements, in conformity with NAIC Annual Statement Instructions—Life, Accident, and Health.
7. Page 40 Financial Reporting—It is recommended that the company report in Schedule Y of its statutory annual statements material transactions among affiliated insurers, in conformity with NAIC Annual Statement Instructions—Life, Accident, and Health.

8. Page 40 Financial Reporting—Annual Statement Schedule T—It is recommended that the company obtain documentation of its license authorization in each jurisdiction in which it is licensed, and that the company maintain documentation pertaining to its licensure authorization in the various jurisdictions.
9. Page 41 Other Assets—It is recommended that the company properly classify and report its intangible assets as non-admitted assets in its statutory financial statements, in conformity with the NAIC Accounting Practices and Procedures Manual.
10. Page 41 Remittances and Items Not Allocated—It is recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability accounts, in conformity with NAIC Annual Statement Instructions—Life, Accident, and Health.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Richard Harlow Anderson	Insurance Financial Examiner
Jerry C. DeArmond	Reserve Analysis Specialist
Donald Gasser	Insurance Financial Examiner
Russell Lamb	Insurance Financial Examiner
Eleanor Opprecht	Insurance Financial Examiner
Christine Shan	Insurance Financial Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge